Designs on PROPERTY Passionate about homes

Maximising Your Property Investments Over The Next Ten Years

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Agenda

- What's happened in the first five years of the credit crunch?
- What will happen from 2012?
- Achieving the best financial returns on your property portfolio
- Critical success factors
  - Does your property stack up financially?
  - Understand and monitor the risks of buy to let
  - Planning for the worst case scenario
- Managing your costs
- Maximising your revenue

Current market update

What's happened to the property market five years after the crash in 2007?

- In England/Wales according to the Land Registry
  - The average property price peaked: **£183,695**
  - The average lowest property price: **£152,657**
  - The average property price in May 2012: **£161,677**
- What we've seen in the five years since the credit crunch is:-
  - Property price performance varying from one area to another
    - London property prices in May 2012 were 4% above 2007 heights
    - Bradford property prices in May 2012 were 22.5% below 2007 heights SOURCE (Land Registry)

Current market update

- According to Belvoir lettings rental indices May 2012 (Source dated May 2012)
  - The average rental price peaked: **£705**
  - The average lowest rental price: **£668**
  - The average rent in May 2012: **£681**
- What we've seen since in the five years since the credit crunch is:-
- Rents, on average, performance varying from one area to another
  - London rental prices in May 2012 were 2% above 2007 heights
  - East Anglia rents are in May 2012 were 7% below 2007 heights (Source dated May 2012)

What will happen beyond 2012?

- Economically

  - The economy is likely to continue to suffer until 2014-2016

    - Depending on whether the Eurozone crisis is contained

- House prices

  - Are likely to continue to grow in areas that have already recovered
  - Such as popular parts of London
  - Prices will recover to pre-credit crunch levels in areas where demand exceeds or matches supply
  - Areas where the supply of properties exceeds demand will continue to fall until 90-95% mortgages are readily available (Source Kate Faulkner, DOP)
  - Unique properties, e.g. well-maintained character properties, will perform differently to local averages

- Rents in most areas will rise in line with wage increases

  - Some areas and well-maintained properties will experience a spike in rents
  - Some areas will suffer a 'sudden' loss of stock when house prices recover

    - Due to 'accidental landlords' selling their properties

Suggested critical success factors to help you secure the best financial return on your property portfolio post-credit crunch

Towards securing the best returns consider:

Critical Success Factor 1:

- Check your property portfolio stacks up financially for the future
  - Ensure your portfolio has sufficient equity compared to mortgage
  - Rank your properties by:
    - Profit from capital growth
    - Rental income every 3 months, 6 months, 12 months
    - Which ones are delivering against your key objectives
- Check the effect of existing mortgage rates increasing to 5-8%
- Consider a contingency fund for each property: ensure you can cover
  - The costs of the property being empty for up to three months
  - Emergency or unplanned maintenance
    - For properties up to 25 years **£1,000**
    - For properties 25+ years **£1,000**
    - For pre-war properties **£2,000**

Towards securing the best returns consider:

- Consult a property wealth and tax expert to help you:
  - Minimise your tax liability legitimately
  - Understand the tax liability implications of exiting your portfolio via sale or income

Securing the best returns

Critical Success Factor 2:
Understand and monitor buy to let risks

- Minimise voids
  - Thoroughly reference check tenants
  - Make sure your letting agent can let a property quickly –
    - A good letting agent will have a turnaround time from a few days to a week, it's something the landlord has to chat through with the letting agent.
- Have the right level of specialist insurance cover
- Know the latest national, regional and local legal letting regulations
  - Scotland requires landlords to be registered and deposits to be protected
  - Some areas in England require local licensing, e.g. Oxford
  - Impact of the 'Green Deal'
    - Visit www.decc.gov.uk and search for 'landlords' and 'green deal'
- Carry out essential maintenance where possible
  - This will be a requirement of your insurance cover
  - Prevents loss of property value caused by disrepair

Securing the best returns

Critical Success Factor 3:
Plan for a 'worst case' scenario

- What if you get sick?
- What would happen if you lost your job?
- What if your portfolio starts losing money?
- What would happen if your properties had less than a suggested 25% equity?
- Which properties could you sell at a profit/break-even in an emergency?
- What would happen if you died?
  - Make sure you have quality estate and inheritance tax planning
  - Are all your files in order so someone can run your portfolio?

Minimising your costs

It's essential to regularly review the key buy to let costs

- Mortgage finance
  - Lenders have been more cautious since the credit crunch
  - Some lenders restrict the number of buy to let mortgages you can have
  - Few lenders will lend on a portfolio, as opposed to an individual property
  - Most lenders require 25% or more equity
  - If you have benefited from low mortgage rates due to low interest rates
    - Make sure you know what mortgage options are available as interest rates rise
    - Know what your portfolio break-even point is from a mortgage cost perspective
- Property sales/disposal
  - Find out what cost implications there are for selling property
  - Mortgage redemption fees
  - Sales fees (estate agent, legal, removal costs)
  - Tax costs

Minimising your costs

It's essential to regularly review the key buy to let costs

- Letting agent fees

  - Review on an annual basis the costs for:

    - Set-up, inventory, tenancy agreement, management, tenancy renewal, periodic checks, annual safety checks, on-going maintenance
    - Some agents charge high set-up and specific item fees

      - But low management fees

  - Other agents charge lower set-up fees and include everything in their service. They also don't typically add fees on to outsourced work

    - But charge higher management fees

  - Always check your monthly statements

    Agents do make mistakes, so check for incorrect charges

- Be aware that not using an agent could be a false economy

  - Good agents (NALS or ARLA members) can save you money through better value services
  - Letting managing agents take on the legal responsibility of letting a property
  - Better reference checks can lead to fewer tenants being in arrears
  - Regular periodic checks can help to identify damage or a poor tenant quickly
  - Don't forget their costs are tax-deductible

Minimising your costs

It’s essential to regularly review the key buy to let costs

- General lettings costs

  - Every six to twelve months, it’s worth reviewing all your costs, including:

  - Advertising fees

  - Safety certificates

  - Periodic checks

  - Inventory fees

  - Tenancy deposit costs

  - Maintenance costs

  - If a flat, service and ground rent charges

  - Professional costs, such as accounting and tax fees

Maximising your revenue

It's essential to regularly review the rent from your properties

- There are various ways of increasing your rent:

  - Renting to individuals rather than families or couples

    - This can increase your costs too, so make sure you net more income

  - Making sure your property is better-maintained than similar properties

    - For example a brand new kitchen and bathroom 'feel'. You don't need a completely new kitchen; you can improve the feel with new cupboards and worktops.

- Reduce your voids

  - E.g. if you rent your property for £500 per month x 11 months = £5,500

    - Could you rent it for 12 months of the year at £475 = £5,700?

  - If your property is well-maintained this may reduce tenant turnover

    - The average tenant rents a property for 20 months
    - If your rental term is less, could you reduce turnover?

Summary

We suggest that you

- Consult a wealth and/or tax advisor
  - Make sure your investment is set up correctly - for you
- Comply with local lettings legislation
- Satisfy a local demand - give tenants what they want
- Provide good quality, well-maintained accommodation
- Budget for all the buy to let costs
- Regularly review your costs
- Consider how you could increase rental income by letting to a different market and minimising voids
- Regularly review the market and track your portfolio's performance against local averages and other types of investment
- Consider switching property and financial investments
  - So you achieve your objectives